

ANNEXURE 9



ADJUSTMENT BUDGET MANAGEMENT POLICY

(Revised Version: 31 March 2016)

2016

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2. PURPOSE AND MAIN RECOMMENDATION: ADJUSTMENT BUDGET MANAGEMENT POLICY

- This policy is amended from Budget Management policy and will be effective as from 1 July 2014.
- The rationale for this report is to obtain Council approval for the implementation of a Adjustment Budget Management Policy in line with the Municipal Finance Management Act (MFMA), 2003, (Act 56 of 2003), in order:
- To establish, maintain and approve a policy framework by which Executive Managers, Managers and Specialists can compile, control and review departmental budgets to ensure effective financial management;
- To assist **Executive Mayor, Mayoral Committee ,Accounting Officer , Executive Managers ,Managers and Officials** to identify (detect) financial problems on time and during the adjustment process so as to implement intervention,
- The main recommendation is that the attached adjustment budget management policy be approved for implementation on **1st July 2016**.

PART ONE: ADJUSTMENTS BUDGET**3. ADJUSTMENTS BUDGET**

- A municipality has to revise an approved annual budget through an adjustments budget. The adjustment budget must adjust the revenue and expenditure estimates downwards if there is material under-collection of revenue. It may also appropriate revenues that have become available, or it may authorize certain other adjustments elucidated in the Act. Only the Mayor may table an adjustments budget in the municipal council.
- **An adjustment may be tabled in the municipal council at any time after the mid-year budget and performance assessments has been tabled in the council, but not later than 28 February of the current year.**
- **Only one adjustments budget may be tabled in the municipal council during a financial year, except when the additional revenues are allocated to a municipality in a national or provincial adjustments budget.**
- The mayor may within 60 days after unforeseeable and unavoidable expenditure was incurred for the purpose of an emergency or other exceptional circumstance and for which no provision was made in an approved budget, table an adjustments budget.
- **An adjustments budget as per MFMA section 28 (2) (g) may only authorize unauthorized expenditure as anticipated by section 32 (2) (a) (i) of the MFMA, and must deal with –**
 - ✓ **A special adjustments budget tabled in the municipal council when the mayor tables the annual report in terms of section 127 (2) of the Act, which may only deal with unauthorized expenditure from the previous financial year which the council is being requested to authorize in terms of section 32 (2) (a) (i) of the MFMA.**
- In terms of the MFMA, essentially three conditions can be defined necessitating an adjustment budget, namely:
 - Under-collection of revenue
 - Emergency or other exceptional circumstance; and
 - Mid-term budget review

3.1 Under-collection of Revenue

- The Accounting Officer must ensure that the spending of funds is in accordance with the budget and is reduced as necessary when revenue is anticipated to be less than projected in the budget or in the service delivery budget implementation plan.
- Should a material under-collection of revenue become apparent, it will be necessary for the municipality to revise the budgeted revenue levels to a realistic forecast. It is also necessary to revise the expenditure levels associated with this revenue downwards in proportion to the revenue budgeted. This could be undertaken with the mid-term budget review which could result in an adjustment budget.
- Should the under-collection however be considered to be material of nature, the CFO should report such under-collection to the Accounting Officer as a matter of urgency to consider implementing corrective measures. Material is normally considered to be 10% or more of an individual item measured against the periodic planning for that item. In some cases the magnitude of the amount concerned may suggest a deviation of less than 10%.

3.2 Emergency or other exceptional circumstances

The Executive Mayor may in case of an emergency or other exceptional circumstances authorize unforeseeable and unavoidable expenditure for which no provision was in the annual approved budget of the municipality.

3.3 Mid-term Budget Review

- Municipalities are required to assess their performance during the first half of the financial year based on their respective services delivery targets, their performance indicators and financial performance. The assessment has to take place on or before 25th January each year according to Section 72 of the MFMA.
- The assessment outcomes may or not necessitate budget adjustments. In instances where an adjustments budget is necessitated, an adjustments budget has to be prepared and submitted to Mayor for consideration and tabling in the Municipal Council.

- In terms of section 72 (3) of the MFMA the Accounting Officer must as part of the review:
 - Make recommendations as to whether an adjustments budget is necessary; and
 - Recommend revised projections for revenue and expenditure to the extent that is necessary.

This policy framework is not applicable to situations referred to in Section 31 of the MFMA. Section 31 applies to capital projects approved with multi-year allocations. It allows a 20% increase in a single year's appropriation, provided the increase is funded by a reduction in the following year's appropriation. The MFMA specifies the procedure to be followed, which includes notification to the Provincial Treasury and the Auditor-General.

3.4 Procedural application

- The following administrative procedure will have to be adhered to in terms of the classifications. In the event of an emergency or exceptional circumstance occurring during the first four months of the financial year(July to October), the following procedure shall be adhered to:
 - a) When the relevant or affected senior management becomes aware of the emergency or exceptional circumstances occurring, he or she should:
 - b) Immediately inform the Member of Mayoral Committee and the Accounting Officer/ Municipal Manager of the emergency or exceptional circumstances that occurred;
 - c) Together with the Member of Mayoral Committee; the Accounting officer and the Chief Financial Officer convene an urgent meeting to determine:
 - The extent of the emergency or exceptional circumstances;
 - The financial implications thereof;
 - The urgency and consequences of actions to be taken;
 - Whether or not the emergency or exceptional circumstances can be accommodated within the allocations of the approved budget vote;
 - Whether or not the emergency or exceptional circumstances would necessitate an amendment to the approved budget; and
 - Whether or not the emergency or exceptional circumstances may be dealt with during the mid-term budget and performance review.

- The relevant or affected senior management must ascertain and conclude that emergency or exceptional circumstances cannot be managed or accommodated within allocated budget allocations by way of known saving, reprioritization of expenditure, operational gains.
- Should this be the case, the relevant senior management must compile a report, in the prescribed, and subsequently submit the report to the Member of Mayoral Committee and Accounting Officer/(Municipal Manager) for evaluation in the consultation with the Chief Financial Officer to determine whether exceptional Adjustment Budget is necessary.
- If not, the issue must be held in abeyance until the mid-term budget and performance review to be undertaken in November, December and January which could result in an Adjustment Budget being tabled during February of that financial year.
- Should this issue (emergency or exceptional circumstance) necessitate the tabling of an exceptional Adjustment Budget, as to be determined by the Accounting Officer/(Municipal Manager) in consultation with the Chief Financial Officer, the Accounting Officer/(Municipal Manager) must advise the Executive Mayor as a matter of urgency.
- After consideration the relevant facts, the Executive Mayor can authorize the related expenditure in terms of Section 29 of the MFMA. The Executive Mayor must however table the proposed adjustment at the next Council Meeting, and should the adjustment budget not be passed within 60 days of the incurred expenditure, the expenditure can be considered unauthorized and section 32 of the MFMA applies. If expenditure is deemed to be unauthorized, as a result of non-acceptance by the council, section 32 applies where there is a potential for political office bearers, the accounting officer or the other official being held liable for the expenditure.
- In the event of an emergency or exceptional circumstances occurring during the months of November, December or January of a particular financial year the following procedure shall be adhered to:
 - The issue shall be raised during the mid-term budget and performance review of that particular department.
 - Subsequently be included in the Adjustment Budget.
- In the event of emergency or exceptional circumstance occurring after the mid-term review and adjustments budget was finalized, the same procedure as stated for the first four months of the financial year, shall apply.

ADDITIONS AND/OR AMENDMENTS

1. No changes was effected on the 2015/16 approved policy.